

**REPORT OF THE AUDIT OF THE
FORMER MCCREARY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER MCCREARY COUNTY SHERIFF

**For The Year Ended
December 31, 2001**

The Auditor of Public Accounts has completed the former McCreary County Sheriff's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$832 from the prior calendar year, resulting in excess fees of \$832 as of December 31, 2001. Revenues increased by \$83,717 from the prior year and disbursements increased by \$82,804.

Report Comments:

- The Former Sheriff Should Have Presented His Annual Financial Settlement To The Fiscal Court And Should Have Settled Excess Fees By March 15 Of The Following Year
- The Former Sheriff Should Have Published His Annual Financial Statement Within 60 Days After The End Of The Calendar Year
- Salaries Should Have Been Approved By The Fiscal Court
- The Former Sheriff Should Have Complied With The Uniform System Of Accounts
- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Regal Bruner, Former McCreary County Sheriff
Honorable Clarence Perry, McCreary County Sheriff
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Sheriff of McCreary County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the former County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.



To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued our report dated May 5, 2003, on our consideration of the former County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Former Sheriff Should Have Presented His Annual Financial Settlement To The Fiscal Court And Should Have Settled Excess Fees By March 15 Of The Following Year
- The Former Sheriff Should Have Published His Annual Financial Statement Within 60 Days After The End Of The Calendar Year
- Salaries Should Have Been Approved By The Fiscal Court
- The Former Sheriff Should Have Complied With The Uniform System Of Accounts
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 5, 2003

MCCREARY COUNTY
 REGAL BRUNER, FORMER COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

Federal Grants:

Cops In Schools	\$	85,257		
Forest Service		13,000	\$	98,257

State Grants:

KLEPPF	\$	10,866		
Body Armor Grant		3,110		
Local Government Projects		36,014		49,990

State Fees For Services:

Finance and Administration Cabinet	\$	20,989		
Cabinet For Human Resources		3,392		24,381

Circuit Court Clerk:

Sheriff Security Service	\$	6,510		
Fines and Fees Collected		2,672		9,182

Fiscal Court

3,604

County Clerk - Delinquent Taxes

2,716

Commission On Taxes Collected

77,319

Sheriff's Fees On Taxes Collected

11,890

Fees Collected For Services:

Auto Inspections	\$	8,065		
Serving Papers		7,330		
Transporting Mental Patients		795		
Transporting Juveniles		1,879		

Other:

Copies		463		
Delinquent Taxes		2,108		
HIDTA Contribution		514		
Carrying Concealed Deadly Weapon Permits		5,890		
Kentucky State Police Task Force - Contribution		4,163		31,207

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
 REGAL BRUNER, FORMER COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Receipts (Continued)

Other: (Continued)

Reimbursements	\$	21,300	
Miscellaneous		<u>7,636</u>	\$ 28,936
Interest Earned			1,163
Borrowed Money:			
State Advancement	\$	34,000	
Bank Note		<u>5,000</u>	<u>39,000</u>
Total Receipts			<u>\$ 377,645</u>

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$	131,082
Other Salaries		10,383
KLEFPF		10,572

Employee Benefits-

Employer's Share Social Security		15,214
Employer's Share Retirement		9,426
Employer Paid Health Insurance		15,591

Contracted Services-

Advertising		707
Bookkeeping		1,100

Materials and Supplies-

Local Government Projects Grant		36,014
Office Materials and Supplies		2,601

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
 REGAL BRUNER, FORMER COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Auto Expense-		
Gasoline	\$	20,734
Maintenance and Repairs		8,485
Equipment		1,462
Other Charges-		
Dues		300
Postage		3,476
Transporting Fugitives		70
Carrying Concealed Deadly Weapon Permits		4,185
Drug Dog Supplies		1,858
Body Armor Grant - Equipment		3,110
Miscellaneous		1,030
Debt Service:		
State Advancement		34,000
Notes		5,000
Interest		567
		<hr/>
Total Disbursements	\$	316,967
		<hr/>
Net Receipts	\$	60,678
Less: Statutory Maximum		59,846
		<hr/>
Excess Fees Due County for Calendar Year 2001	\$	832
		<hr/>
Payment to County Treasurer - May 6, 2003	\$	832
		<hr/>
Balance Due at Completion of Audit	\$	0
		<hr/>

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months of the year and 6.41 percent for the last six months of the year.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

Note 4. Drug Control Account

A drug control account was opened on April 29, 1994, with forfeited drug money. This account is restricted and may only be used for drug control. The balance as of January 1, 2001 was \$659. The account earned interest of \$2 during calendar year 2001 and expended \$515, leaving a balance of \$146 as of December 31, 2001, which is not available as excess fees.

Note 5. Federal Asset Forfeiture Account

In 2001, the former sheriff received Federal "Equitably Shared Assets Forfeiture Funds" of \$61,567. The grant agreement states that "priority should be given to supporting community policing activities, training, and law enforcement operations calculated to result in further seizures and forfeitures". The unexpended balance from 2000 was \$6,854. The account earned interest of \$457 for total receipts of \$62,024. The former sheriff expended \$31,570 in 2001, leaving a balance of \$37,308 at December 31, 2001, which is not available as excess fees.

Note 6. Cops In School Grant

In 1999 the office of the former Sheriff was awarded a grant under the Office of Justice Programs in the amount of \$344,170 to be expended over three years. At the end of 2000 there was a balance of \$596 in this account. During 2001, the former Sheriff received funds totaling \$85,182 plus earned interest of \$126 and spent funds totaling \$85,257. Therefore, the unexpended balance at December 31, 2001, was \$647, which is not available as excess fees.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 7. Body Armor Grant

The office of the former Sheriff was awarded a Body Armor Grant through the Department for Local Government for \$3,104. The Grant was to be used for the purchase of body armor. Interest of \$6 was earned and expenditures of \$3,110 were paid leaving a zero balance at December 31, 2001.

Note 8. McCreary County Sheriff Department Project Grant

The office of the former Sheriff was awarded a Local Government Projects grant under House Bill 502 on October 4, 2000. The Grant was to be used to purchase new law enforcement equipment. The office received \$40,000 in February, 2001, and earned interest of \$322. Expenditures of \$36,014 were made leaving a balance of \$4,308 as of December 31, 2001, which is not available as excess fees.

COMMENTS AND RECOMMENDATIONS

MCCREARY COUNTY
REGAL BRUNER, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2001

STATE LAWS AND REGULATIONS:

- 1) The Former Sheriff Should Have Presented His Annual Financial Settlement To The Fiscal Court And Should Have Settled Excess Fees By March 15 Of The Following Year

The former Sheriff did not file his annual settlement with the county and did not pay excess fees as required. KRS 134.310 states “ the Sheriff shall file annually with his final settlement: (a) a complete statement of all funds received by his office for official services, showing separately the income received by his office for services rendered, exclusive of his commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and (b) a complete statement of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.” We recommend the former Sheriff present an annual financial settlement to the fiscal court.

Former County Sheriff's Response:

We will pay the balance owed. It was too late to publish.

- 2) The Former Sheriff Should Have Published His Annual Financial Statement Within 60 Days After The End Of The Calendar Year

The former Sheriff did not publish his annual settlement. KRS 424.220 (6) & (8) states “The sheriff shall, within sixty (60) days after the close of the calendar year cause the financial statement to be published in full in a newspaper qualified under KRS 424.120 to publish advertisements for the county.” We recommend the Sheriff's office comply with this statute by publishing an annual financial statement within sixty (60) days after the close of the calendar year. “Promptly after publication is made, the Sheriff shall file a written or printed copy of the advertisement with proof of publication, in the office of the county clerk of the county and with the Auditor of Public Accounts. Promptly after publication is made, the Sheriff shall also file one (1) copy of the financial statement with the Kentucky Department for Local Government.” We recommend the Sheriff's office comply with KRS 424.220.

Former County Sheriff's Response:

This is already past. We had never done this before.

MCCREARY COUNTY
REGAL BRUNER, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2001
(Continued)

STATE LAWS AND REGULATIONS AND INTERNAL CONTROL:

3) Salaries Should Have Been Approved By The Fiscal Court

We could not find where the fiscal court had approved the former Sheriff's salaries. KRS 64.530 states "In the case of officers compensated from fees, or partly from fees and partly from salaries, the fiscal court shall fix the maximum compensation that any officer except the officers named in KRS 64.535, (i.e., county judge/executives, county clerks, jailers operating full service jails, and sheriffs) may receive from both sources. The fiscal court may also fix the maximum amount that the officer may expend each year for expenses of his office. The fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies, assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant." We recommend the Sheriff's office comply with KRS 64.530.

Former County Sheriff's Response:

Salaries are approved with the budget.

4) The Former Sheriff Should Have Complied With The Uniform System Of Accounts

The former Sheriff did not comply with the Uniform System Of Accounts:

- The former Sheriff did not prepare daily cash check out sheets as required by the Uniform System of Accounts
- The former Sheriff did not make daily deposits
- The former Sheriff did not maintain a cash disbursements ledger as required by the Uniform System of Accounts. Instead, disbursements were classified by category on the check stub and recorded monthly on the monthly report

We recommend the Sheriff's office prepare daily cash checkout sheets. Daily checkout sheets should be posted to the receipts ledger, and deposits should be made intact daily. We also recommend the Sheriff's office comply with the Uniform System of Accounts by maintaining a cash disbursements ledger.

Former County Sheriff's Response:

We agree.

MCCREARY COUNTY
REGAL BRUNER, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2001
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The former Sheriff's office had a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented by the Sheriff's office to offset this internal control weakness.

- The Sheriff should prepare a daily checkout sheet and daily bank deposit. The daily checkout sheet should agree to the daily receipts ledger and any differences noted should be investigated.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should prepare a monthly bank reconciliation that should reconcile to the receipts and disbursements ledger. Any differences should be investigated.
- Strong and direct supervision by the official over receipts-
 - a. Cash recounted and deposited by the official
 - b. Surprise cash counts by the official
 - c. Reconciliation of monthly reports to source documents and receipts and disbursements ledgers
- Strong and direct supervision by the official over disbursements-
 - a. All disbursement checks to be signed by two people, with one being the official
 - b. Official examines payroll checks prepared by another employee and distributes checks to employees
 - c. Official mails disbursements
 - d. Preparation of disbursements ledger
- General areas-
 - a. Official prepares bank reconciliation
 - b. Financial statement is published
 - c. Fiscal Court approval of salaries
 - d. Financial statement presented to Fiscal Court

Former County Sheriff's Response:

We agree.

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former McCreary County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated May 5, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former McCreary County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Presented His Annual Financial Settlement To The Fiscal Court And Should Have Settled Excess Fees By March 15 Of The Following Year
- The Former Sheriff Should Have Published His Annual Financial Statement Within 60 Days After The End Of The Calendar Year
- Salaries Should Have Been Approved By The Fiscal Court
- The Former Sheriff Should Have Complied With The Uniform System Of Accounts



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former McCreary County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- Salaries Should Have Been Approved By The Fiscal Court
- The Former Sheriff Should Have Complied With The Uniform System Of Accounts
- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider that the former Sheriff should have complied with the Uniform System of Accounts and the Sheriff's office lacks an adequate segregation of duties to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 5, 2003

